PREMIUM BRANDS INC. ANNUAL REPORT 2003

Innovation & Excellence

Directplus FOOD GROUP LTD. · Fletcher's FINE FOODS · goodlife foods · GRIMM'S FINE FOODS · HARVEST · McSweeney's Good as Gold · Quality Fast Foods

Premium Brands Inc. is an integrated food processing company headquartered in Richmond, British Columbia. The Company manufactures, markets and distributes a variety of branded consumer food products in markets across Canada, the Western United States and Japan. Its family of brands include Fletcher's, Grimm's, Harvest, McSweeney's, Goodlife, and Quality Fast Foods.

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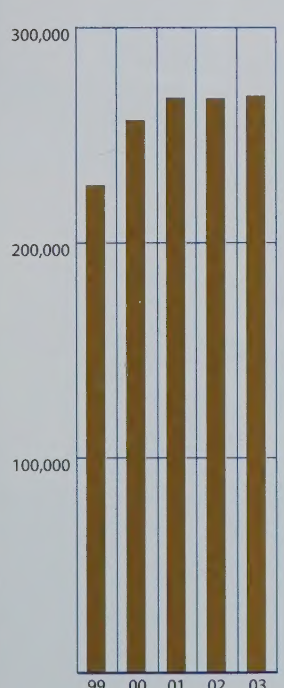
FINANCIAL HIGHLIGHTS

(In 000s, except per share amounts)

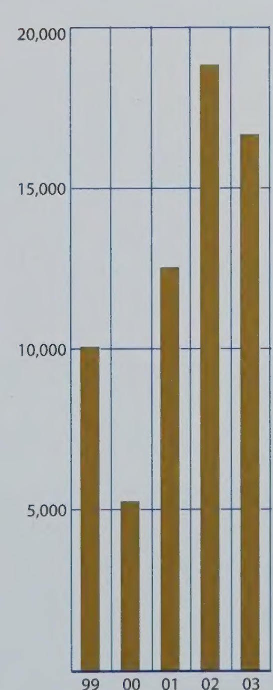
	2003	2002	2001	2000	1999
Sales from continuing operations[1]	$ 268,501	$ 267,408	$ 267,740	$ 257,425	$ 226,879
EBITDA from continuing operations[1][2]	$ 16,633	$ 18,817	$ 12,515	$ 5,242	$ 10,059
Net earnings (loss)	$ (949)	$ (5,570)	$ 15,412	$ (5,795)	$ (809)
Weighted average common shares outstanding	10,381	10,316	8,666	7,870	7,666
Basic earnings (loss) per share	$ (0.09)	(0.54)	$ 1.78	$ (0.74)	$ (0.11)
Capital expenditures	$ 6,929	6,824	$ 8,156	$ 30,921	$ 38,232
Total assets	$ 204,759	$ 227,536	$ 238,289	$ 274,107	$ 199,790
Net funded debt	$ 66,238	$ 69,355	$ 75,808	$ 137,992	$ 86,764
Shareholders' equity	$ 115,870	$ 125,557	$ 131,656	$ 93,320	$ 85,710
Book value per share[3]	$ 11.11	$ 12.18	$ 12.73	$ 11.32	$ 11.11

(1) Excludes Stone Mill Foods and the Company's label printing business, which were sold in July 2000 and April 2003, respectively, and discontinued operations.
(2) Earnings before interest, income taxes, depreciation, amortization, equity in earnings of associated companies, non-controlling interest, transactional losses and unusual items.
(3) Calculated as shareholders' equity divided by the shares outstanding at year-end.

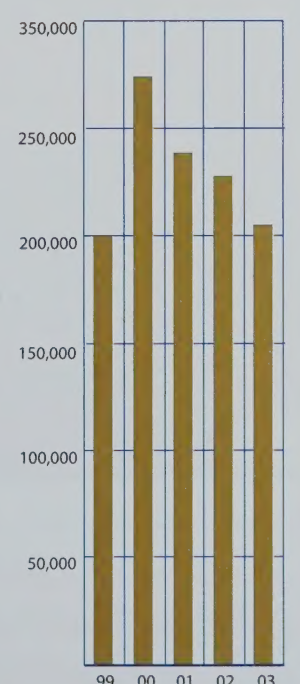
Sales from Continuing Operations



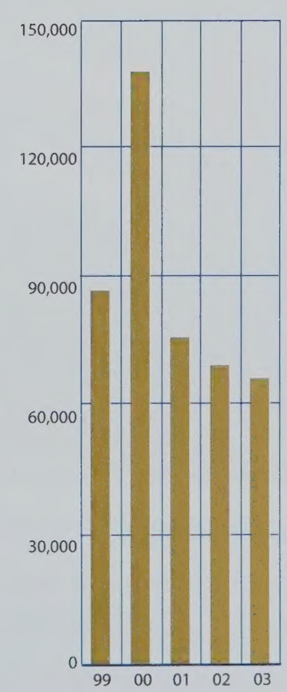
EBITDA from Continuing Operations



Total Assets



Net Funded Debt



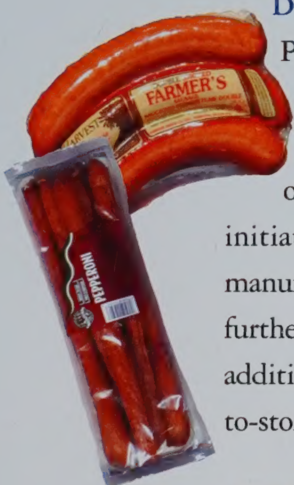
"Our reputation for quality and innovation results from our adherence to traditional values and a neverending quest to create new product lines."

New Products

"Premium Brands has built a strong platform for long-term growth and profitability based on a proven ability to develop innovative new products, build strong and trusted brands, operate efficient and low cost manufacturing facilities, deploy state of the art information systems and leverage unique and proprietary distribution networks."

Chairman's Letter

Looking forward, we are very confident in the underlying strength of our businesses and view 2004 as a breakout year for our Company.



Dear Shareholder,

Premium Brands made significant progress in 2003 towards achieving its short and long term objectives. Solid market share gains were made by our brands, several continuous improvement initiatives were successfully implemented at our manufacturing facilities, our management team was further strengthened with some key additions and additional refinements were made to secure our direct-to-store distribution network's competitive position. We also continued to make significant progress in improving our financial position and since the beginning of 2003 have paid down over $20.1 million in debt.

While we are pleased with the advancements that were made in the past year in improving the underlying strength of our company, we are disappointed that our operating results do not fully reflect this due to the impact of two major external events. The first of these was the discovery of a case of BSE in Western Canada in May 2003. Immediately after this we lost access to several export markets for some of our key product lines. This was followed by dramatic and unprecedented shifts in the price of certain raw materials as the North American protein industry attempted to adjust to the supply and demand imbalances that were created by various border closures.

The second major event to impact our results in 2003 was the rapid rise in the Canadian dollar, which decreased the relative value of our exports to the U.S.

While we were able to manage our way through these issues by shifting production to the U.S., reformulating products and outsourcing still other products, this was not without considerable cost to our company. Despite this, our existing businesses were still able to generate EBITDA of $16.6 million, their second best on record. We view this as a clear indication that our unique customer diversification and niche product strategies are working.

Looking forward, we are very confident in the underlying strength of our businesses and view 2004 as a breakout year for our Company, both in terms of profitability and in unlocking the intrinsic value that has been created over the last two years. The focus of this year's annual report, ***Innovation & Excellence***, aims to show you the true potential of our Company by examining some of the successes of 2003, including:

- 17% growth in our Harvest branded product line thus firmly positioning it as the number one premium processed meat brand in Western Canada.
- The successful introduction of over 40 new products by our Deli Group, which includes the Grimm's, McSweeney's and Quality Fast Foods brand names.
- 12% growth in our Fletcher's business' Canadian sales, signaling that it has recaptured the positive momentum that was lost when a nine month labour dispute shut down its main plant in 2000 / 2001.
- General industry acknowledgement that our Direct Plus Food Group is now the market leader in direct-to-store distribution in Western Canada.

We are a very dynamic company as demonstrated by our emergence from the events of 2003 as a stronger company. In an increasingly competitive environment with new challenges being presented constantly on a range of issues from food safety to trading disputes, our dedication to ***Innovation & Excellence*** for our products, plants and distribution networks is what will ensure our ultimate success.

As a final word I would once again like to thank all of our employees for their hard work and dedication in getting us to where we are today, and our shareholders for the trust they have placed in us.

On behalf of the Board of Directors,

Fred Knoedler

Fred Knoedler
Chairman and CEO

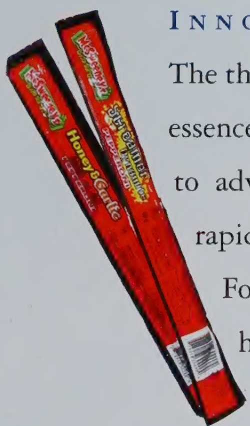
"Premium Brands has emerged as a leading provider of complete product and service solutions to the growing convenience store and neighborhood deli segments due to its unique combination of market leading brands and proprietary direct-to-store distribution systems."

Specialty Foods

"Our Specialty Foods Group successfully launched over 40 new products in the past year alone. These include low fat bison and turkey sausage products under the Grimm's brand, various additions to the McSweeney's meat snack line, including an entirely new kippered beef snack food line, a new high-end sandwich line under the Grimm's brand and a Quality Fast Foods fresh pizza program."

President's Letter

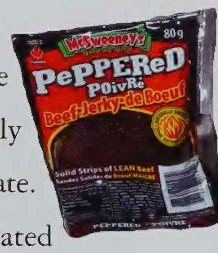
Innovation & Excellence



The theme of this year's annual report summarizes the essence of how Premium Brands has and will continue to advance its market leading position in today's rapidly changing food industry.

Food safety is a key issue to most consumer households in North America. Events such as the discovery of two cases of BSE in North America this past year and the Avian bird flu epidemic in Asia and certain parts of North America are raising an unprecedented number of questions and concerns in consumers' minds. Add to this new dieting trends such as Atkins and South Beach, which are completely restructuring the way people eat, and you have just two of the more recent examples of events that are dramatically changing the way the food industry must operate.

At Premium Brands our commitment to "Innovation & Excellence" in every aspect of our business will ensure that we are positioned to not only respond to the changes occurring in our industry but to capitalize on the opportunities that are being created by these changes.



Today's consumer is both better educated and more demanding than ever before but also very fickle with ever changing tastes and attitudes. One only has to look at the bakery industry, one of the oldest and most established parts of the food supply chain, to recognize how quickly circumstances can change. With over 40 million consumers following the Atkins or the South Beach diets the bakery industry is almost overnight struggling to become relevant to today's mainstream consumer.

At Premium Brands our commitment to *Innovation & Excellence* in every aspect of our business will ensure that we are positioned to not only respond to the changes occurring in our industry but to capitalize on the opportunities that are being created by these changes. Through our continuous focus on developing strong and trusted brands, efficient and low cost manufacturing facilities, state of the art information systems, unique and proprietary distribution networks; and our unequivocal commitment to the development of new and innovative products that are relevant to today's consumer, we will ensure our survival and long term prosperity.

A good example of our dedication to the principles of *Innovation & Excellence* are the over 60 new products that we launched in 2003, some of which we will be showcasing in this year's annual report.

Specialty Foods Group

Our Specialty Foods Group has undergone dramatic changes over the past three years as we have been positioning it to be a leader in today's changing environment. This division has now emerged as a well focused, cohesive group positioned to deliver strong and consistent top and bottom line growth. The group is anchored by its market leading Grimm's, McSweeney's and Quality Fast Foods brands, all of which are distributed through its Direct Plus Food Group, the industry leader in direct-to-store distribution in Western Canada.

We are very excited and confident about the future of the Specialty Foods Group. With state of the art manufacturing, warehousing, and information technology platforms; a leading direct-to-store distribution system; and product lines that focus on

"Our Mainstream Processed Meats Group's unwavering commitment to quality and innovation, combined with its focus on developing unique meal solutions for its customers, will ensure continued strong growth of its market share in Canada, the United States and Japan."

Mainstream Processed Meats

"Our corporate foodservice and oversea export teams, which form part of our Mainstream Processed Meats Group, are constantly identifying new markets and new opportunities to leverage our product portfolio. Today, our branded products are prominent on retailer shelves across Western Canada and the Western United States, and can be found as far away as Japan and other parts of Asia."

Through our continuous focus on developing strong and trusted brands, efficient and low cost manufacturing facilities, state of the art information systems, unique and proprietary distribution networks; and our unequivocal commitment to the development of new and innovative products that are relevant to today's consumer, we will ensure our long term prosperity.

quality and convenience; this group is situated at what we consider to be the "sweet spot" of the protein food chain. Its ability to develop, market and distribute shelf-stable, refrigerated and fresh products to today's time starved but health conscious consumers can be matched by no-one.

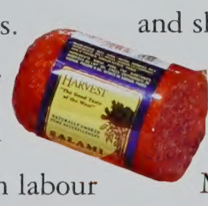
Over the past year this group successfully developed and launched over 40 new products including new low fat bison and turkey sausage products under the Grimm's brand, various additions to the McSweeney's meat snack line including an entirely new kippered beef line, a new high end sandwich line under the Grimm's brand and a Quality Fast Foods fresh pizza program. All of these products were launched in conjunction with a number of innovative changes to packaging design and functionality focused on making the entire consumer experience more enjoyable and convenient.

Mainstream Processed Meats Group

Our Mainstream Processed Meats Group completed the year on a strong note despite the lingering effects of BSE and currency exchange related issues. The strengthening of the Canadian dollar over the past year validated our 2000 / 2001 decision to absorb the impact of a nine month labour dispute in order to lower our labour costs. Had we not done this then our competitiveness today on exports to the U.S. and key offshore markets would have been severely impacted by the appreciation of the Canadian dollar. Our decision to not avoid the labour dispute was at the time a difficult one; however, the strong performance of this division in the fourth quarter, despite the strength of the Canadian dollar, demonstrates that our strategy of managing our business for the long term is sound.

During the year, the division's Harvest brand achieved the number one market position in several product categories in Western Canada with its third consecutive year of double digit growth. Supported by one of the most modern manufacturing facilities in North America, the Harvest brand has established itself as the market leader for consumers looking for top quality processed meats.

To meet its growth targets going forward, we are in the process of adding an additional 18,000 square feet of production space to Harvest's Yorkton, SK plant This is our second major expansion of this facility and once completed in late 2004 will provide Harvest with over 100,000 square feet of production space and will enable us to expand the Harvest product group to include new lines of dried sausage and shelf stable meat snack products.



Although not as prolific as the Specialty Foods Group, the Mainstream Processed Meats Group introduced over 20 new products in 2003 including a number of new items for the Japanese market.

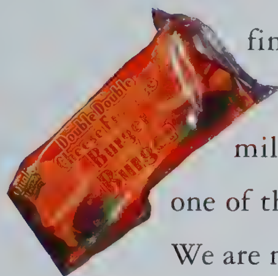
"With 104 trucks servicing over 13,000 distribution points, our Direct Plus Food Group's direct-to-store distribution business is now the market leader in Western Canada."

Specialty Foods

"With state of the art manufacturing, warehousing, and information technology platforms; a leading direct-to-store distribution system; and product lines that focus on quality and convenience; our Specialty Foods Group is situated at what we consider to be the "sweet spot" of the protein food chain."

Financial Position

During 2003 and early 2004 we continued to execute on our plan of liquidating redundant assets and non-core businesses and strengthening our financial position. Today our total funded debt is $53.1 million versus $138.2 million just over three years ago resulting in one of the strongest balance sheets in our industry. We are not, however, finished and intend to further reduce our debt through the continued divestiture of non-core assets.



Looking forward we intend to use our favourable financial position to take advantage of acquisition and other growth opportunities as we look for ways to round out our product and business portfolios.

Shareholder value

We remain steadfast in our commitment to unlock the intrinsic value inherent in our core businesses. Our improved financial position, strong and growing brands, efficient manufacturing operations and proprietary distribution networks are providing us with new opportunities to enhance shareholder value. To this end we have, over the past few months, been reviewing and assessing several specific initiatives to enhance shareholder value and hope to be presenting our shareholders with some very exciting opportunities in 2004.

Our improved financial position, strong and growing brands, efficient manufacturing operations and proprietary distribution networks are providing us with new opportunities to enhance shareholder value.

Thank you for your continued support.

George Paleologou
President

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion should be read in conjunction with the Company's financial statements and the notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars except as noted otherwise.

RESULTS OF OPERATIONS

Outlined below are the Company's sales and earnings by reporting segment for the period indicated:

(in thousands of dollars)	**2003**	**2002**
Sales:		
Mainstream Processed Meats	$ 159,465	$ 156,022
Specialty Foods	111,056	117,215
	$ 270,521	$ 273,237
Segment profit (loss) :[1]		
Mainstream Processed Meats	$ 6,568	$ 7,114
Specialty Foods	4,815	8,443
Corporate	(2,563)	(3,969)
	$ 8,820	$ 11,588
Segment profit (loss) margin:[1]		
Mainstream Processed Meats	4.1%	4.6%
Specialty Foods	4.3%	7.2%

(1) Segment profit (loss) is defined as earnings before interest, income taxes, amortization of intangible assets, equity in earnings of associated companies, non-controlling interest and transactional items. Segment profit (loss) is not a measure of performance under generally accepted accounting principles; however, management uses this measurement to assess the operating results of its reportable segments.

MAINSTREAM PROCESSED MEATS DIVISION

The Mainstream Processed Meats Division ("MPM") manufactures and markets processed meat products, including bacon, hams, wieners and a variety of fresh and cooked sausage products that appeal to a broad consumer base. It sells its products primarily through the retail and food service distribution channels, which are the main focus of the food industry and account for the majority of North American food sales. The Division's primary markets are in Western Canada, the Western United States and Japan; and its brands include Fletcher's and Harvest.

MPM's sales for the year increased to $159.5 million from $156.0 million in 2002 due to market share gains by the Company's Harvest and Fletcher's brands in Western Canada partially offset by the impacts of a stronger Canadian dollar and the discovery of a single case of BSE in Western Canada.

The impact of the stronger Canadian dollar relates mainly to the translation of its U.S. sales into Canadian dollars. In 2003 these sales were translated at an average rate of 1.40:1 versus 1.57:1 in 2002. The net impact of this on MPM's 2003 sales, as compared to its 2002 sales, was approximately $10.1 million. In U.S. dollar terms, the Company's U.S. sales increased by 4.7% to US$57.8 million from US$55.1 million in 2002.

The BSE related impact on MPM's sales resulted from lost exports to Japan, and to a lesser extent the U.S., due to bans on Canadian products containing beef and other ruminant animal products and by-products. The Company was able to mitigate the sales impact of this issue by shifting the processing of some products into the U.S., reformulating others and outsourcing still others.

Overall the Division's volumes were up by 7.6% to 32.4 million kilograms from 30.1 million kilograms in 2002.

MPM's segment profit was $6.6 million versus $7.1 million in 2002. The decrease was the result of approximately $1.7 million in BSE related impacts and $1.5 million in currency exchange related impacts partially offset by a general improvement in margins in Canada due mainly to the improved performance of its Vancouver, BC processing plant.

BSE had a negative impact on MPM's segment profit due to a combination of factors including lost gross margin and overhead contribution from reduced export sales, increased operating costs associated with shifting production from Canadian to U.S. based plants and lower gross margins resulting from erratic and unusual spikes in certain raw material costs.

The $1.5 million currency exchange impact was the result of a decrease in the value realized for products exported to the U.S. due to the strengthening of the Canadian dollar. The Company's Canadian operations currently export approximately US$26 million per year in products to the U.S. About 65% to 70% of the value of these exports is naturally hedged due to certain input commodities being priced in U.S. dollars with the remainder of the costs being subject to currency exchange fluctuations.

Partially offsetting the impacts of the BSE and currency exchange related issues was the significantly improved performance of MPM's main processing plant in Vancouver, BC. Since resolving a nine month labour dispute that ended in April 2001, the Vancouver plant has had difficulties ramping up to its pre-labour dispute production volumes and product

mix levels due to competitive issues and challenges resulting from the BSE discovery. During 2003 the plant did, however, reach its targeted volume and product mix levels and this, combined with the benefits of the lower wage structure negotiated after the 2000 / 2001 labour dispute, resulted in a much improved performance.

Specialty Foods Division

The Specialty Foods Division ("SF") consists of two businesses. Its Deli Group business, which includes the Grimm's, Quality Fast Foods and McSweeney's brand names as well as its direct-to-store distribution network; manufactures, markets and distributes high quality differentiated specialty food products targeted at niche markets. The Deli Group's products include European-style deli meats, delicatessen items (such as cheeses and specialty Mexican foods), snack foods (such as pepperoni, beef jerky and individually wrapped pastries), and pre-packaged sandwiches, wraps, donairs and burgers; all of which are sold primarily through its 104 truck direct-to-store distribution network. This network services delicatessens, small retail chains and convenience stores across Western and Atlantic Canada.

SF's other business consists of its relatively new Goodlife Foods home delivery franchise initiative. This business, which was started in May 2000, sells a range of frozen food products, including ice cream and a variety of frozen meal solutions, to a network of exclusive franchises who, in turn, sell the products directly to consumers across Western Canada.

SF's sales for 2003 were $111.1 million versus $117.2 million in the previous year. After adjusting for the sale of its label printing business in May 2003, sales were $109.0 million versus $111.4 million in 2002 with the decrease being due to a combination of BSE related impacts on the Deli Group and the termination of sixteen weaker franchisees in the Goodlife Foods network. The Deli Group's sales were $100.8 million versus $101.5 million in 2002 while Goodlife Foods' sales were $8.2 million versus $9.9 million in 2002.

The BSE related impact on the Deli Group's sales resulted mainly from lost exports to Asia due to bans on Canadian products containing beef. Goodlife Foods' termination of weaker franchisees related primarily to franchisees who were corporate drivers prior to Goodlife Foods' conversion to a franchisee based system, and who were unable to make a successful transition. Looking forward, the Company expects Asian exports to return to normal levels late in the second quarter of 2004 while its franchisee turnover rate has stabilized in the 15% to 20% range.

SF's segment profit was $4.8 million versus $8.4 million in 2002. After adjusting for the sale of its label printing business, the Division's segment profit was $4.5 million versus $7.6 million in the prior year. The majority of this decrease related to Goodlife Foods which incurred a segment loss of $0.9 million, versus a profit of $0.8 million in 2002, due to lower sales volumes and a $0.5 million decrease in franchisee fee revenue.

The Deli Group's segment profit was $5.4 million versus $6.8 million in 2002 with the decrease resulting from approximately $1.2 million in BSE related impacts and another $1.2 million in costs associated with initiatives to improve the operating efficiencies and volume levels within its direct-to-store distribution network. These initiatives included the introduction of over 40 new products and a revised driver/sales person compensation structure that ties their compensation to targeted sales and margin performance levels.

Corporate

Included under Corporate are head office and corporate information systems costs, the net operating results of the Company's corporate distribution centre located in Surrey, BC, and interest income earned on notes receivable. In 2003, Corporate costs decreased to $2.6 million from $4.0 million in 2002 primarily due to a $0.8 million gain on the sale of the Company's label printing business.

Equity in Earnings of Associated Companies

The Company recorded a $0.3 million loss relating to its investment in Community Pork Ventures Inc. ("CPV") in the first quarter of 2003 as a result of accounting for this investment using the equity method. In the second quarter of 2003 the Company came to an agreement with CPV that it would reduce the number of directors it was entitled to appoint to CPV's Board of Directors to one of nine directors from the previous three of nine directors. As a result of this change, the Company determined that it no longer had significant influence over the operations of CPV and, effective as of the second quarter of 2003, began accounting for its investment in CPV using the cost method.

Interest Expense

Included in interest expense for 2003 is $0.7 million in fees associated with the early payment of certain long term debt amounts resulting from the collection of notes receivable.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

INCOME TAXES

The Company's tax expense of $0.9 million for 2003 consisted primarily of capital related taxes. Also included in the tax provision is a $0.3 million reduction in tax assets due to changes in the tax rate and timing assumptions used to value these assets.

NET LOSS

Overall, the Company posted a net loss for the year of $0.9 million or $0.09 per share versus a loss of $5.6 million or $0.54 per share in 2002 with the major items affecting the 2003 results being the impacts of currency exchange and BSE related issues. In 2002, the Company's results were reduced by a number of one time transactional costs that totaled $7.0 million and included a loss of $1.1 million for the buy-out of a consulting agreement with the Saskatchewan Wheat Pool, a loss of $4.1 million on the sale of redundant assets and non-core businesses, and a charge of $1.8 million for the write down of certain intangible and redundant assets.

LIQUIDITY

A core focus of the Company in recent years has been to reduce its funded debt. To this end it has, over the last three and a quarter years, reduced its term debt by $56.2 million to $41.6 million at the end of the first quarter of 2004 and its operating debt by $28.9 million to $11.5 million during this same time period.

The Company's primary cash sources are through operations, the sale of redundant and non-core assets and the collection of notes receivable, the majority of which relate to previous sales of non-core businesses. In 2003 the Company raised $0.5 million in cash proceeds from the sale of redundant assets resulting primarily from the conversion of its Goodlife Foods home delivery business to a franchisee structure, $3.0 million from the sale of non-core businesses, namely its label printing business, and $3.3 million from the collection of notes receivable. An additional $3.4 million was raised from the collection of notes receivable in the first quarter of 2004.

Two of the Company's key financing objectives have been to diversify its creditor base and to reduce its average cost of funded debt. To this end the Company recently entered into two sale and leaseback structures. The first of these, which was completed at the end of the third quarter of 2003, involved the sale and leaseback of the Company's direct-to-store distribution fleet and resulted in net proceeds of $2.6 million. The second transaction was completed at the end of the first quarter of 2004 and involved the sale and leaseback of the Company's Vancouver, BC processing facility resulting in net proceeds of $8.5 million.

Both of these transactions, in addition to reducing the Company's funded debt, were immediately accretive to the Company's net earnings. In addition, in the case of the direct-to-store fleet leasing structure, which includes important operational uptime guarantees, the Company's future capital expenditure requirements were significantly decreased as the lessor is responsible for fleet replenishment.

In general terms the Company's accounts receivable and inventories turn over rapidly and are financed through bank operating lines and terms on its trade purchases. The Company's working capital needs generally peak just prior to each festive holiday season, i.e. Easter, Thanksgiving and Christmas, as inventories are built up in the preceding weeks in order to deal with increased consumer demand.

During 2003 as a result of the impacts of BSE and exchange related issues on the Company's cash flows from operations, its net working capital position decreased to $2.3 million from $5.1 million at the end of 2002. Subsequent to year end, the Company enhanced its net working capital position through improved cash flows from operations, the collection of long term notes receivable and the sale and leaseback of the Vancouver, BC plant resulting in a net working capital position of $4.7 million at the end of the first quarter of 2004.

The impacts of BSE and currency exchange issues on the Company's cash flows in 2003 also resulted in the Company having to retroactively amend certain of its banking covenants to ensure that it was in compliance with all of its banking covenants as at year end.

The Company expects cash flows from operations and the collection of note receivables, combined with the un-utilized portion of its operating loans, to exceed its normal cash requirements, including budgeted capital expenditures, for 2004. As at the end of the first quarter of 2004, the un-utilized portion of the Company's operating

lines totaled $8.5 million while the Company's expected collections on notes receivable were as follows:

2004 (remaining three quarters)	$0.5 million
2005	$0.6 million
2006	$0.6 million
Thereafter	$1.0 million

The Company also expects to raise an additional $0.7 million from the sale of redundant assets by its Goodlife Foods business in 2004, the proceeds from which will be used for debt reduction. The Company still holds investments in two non-core businesses, namely its 30% interest in CPV and its 20% interest in Tapp Technologies Inc. ("Tapp").

Outside of normal operations, the Company is actively looking for acquisition opportunities to further round out its product and business portfolios. In the event that the Company is successful in purchasing a new business it would likely need to raise cash from the issuance of new debt and / or equity in order to finance such a transaction. In general terms, the Company's acquisition strategy targets businesses that complement its specialty food businesses.

The Company's significant contractual obligations as at December 27, 2003 were as follows:

(millions of dollars)	Total	2004	2005	2006	2007	2008	Thereafter
Long term debt	48.2	7.9	22.4	1.2	5.5	1.2	10.0
Capital leases	0.6	0.3	0.2	0.1	—	—	—
Operating leases	4.3	2.5	1.0	0.5	0.2	0.1	—
Purchase obligations	1.8	1.8	—	—	—	—	—
Total	54.9	12.5	23.6	1.8	5.7	1.3	10.0

Capital Resources

During 2003 the Company spent $6.9 million on capital expenditures, $2.8 million of which related to the expansion of its Harvest facility in Yorkton, SK that is scheduled to be completed near the end of 2004. Once complete, this project will expand the Company's shelf stable meat snack capacity and will enable it to enter a new niche market for high end shelf stable processed meats.

Looking forward, the Company anticipates that its capital expenditures for 2004 will be approximately $8 million, $1.7 million of which are committed expenditures relating to the Harvest plant expansion.

In May 2003 the Company received a 20% interest in Tapp as part of the proceeds from the sale of its label printing business to Tapp. The investment has been included as an investment in an associated company. See Note 8(a) to the Company's 2003 Consolidated Financial Statements for additional details.

Also in May 2003 the Company reached an agreement with CPV which eliminated contingent consideration associated with its original investment in CPV in November 2000. Under the terms of this agreement, the contingent consideration was eliminated in exchange for 125,000 of the Company's common shares, $2.0 million in cash and a $4.7 million note payable bearing interest at 4.5% and payable in September 2005. In December 2003 the Company agreed to offset its $4.7 million note payable to CPV with receivables from CPV.

The Company has made commitments that it and/or its affiliates will incur $15.0 million in qualified expenditures in the Province of Saskatchewan by December 2004. To date the Company's expenditures total $9.4 million and the Company is negotiating the inclusion of a further $6.7 million in expenditures (see Note 10(b) to the Company's 2003 Consolidated Financial Statements).

In the event that the Company's qualified expenditures are less than $15.0 million, the Company would incur a penalty of 27% of the difference between the $15.0 million commitment and the actual amount of qualified expenditures, payable in cash and / or shares. Based on the Company's various initiatives, it expects to either meet this commitment in 2004 or negotiate an extension of its deadline on the basis that several projects have been delayed due to the unusual events that have occurred in the North American food industry over the last two years.

As at April 29, 2004 the Company's outstanding shares and options were 10,430,444 and 446,946, respectively.

Risk Factors

Commodity risk: The Company is exposed to commodity risks associated with the pricing of various direct material inputs including fresh pork, beef and poultry for its meat processing operations, fuel for its distribution initiatives and packaging costs for all of its manufacturing operations. The Company manages this risk through a number of initiatives including its focus on high end specialty products, which provide the company with improved pricing abilities and, as a percentage of sales, less exposure to commodity fluctuations; and the growing diversification of its product lines.

Industry risk: The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage or contamination, product liability and the potential costs of a product recall. The Company manages this risk through a variety of initiatives including the maintenance of strict and rigorous controls and processes in its manufacturing facilities and distribution systems.

International trade risk: The Company exports significant amounts of its products to the U.S. and Japan and as such can be affected, both positively and negatively, by international events that affect the price of food commodities, or affect the free flow of food products between countries. An example of such an event was the discovery of BSE in Canada in 2003 and the resulting refusal by several countries to allow imports of Canadian products containing ruminant animal products and / or by-products.

Financial risk: The Company has risk exposure to interest rate fluctuations on its term and operating debt and to foreign exchange fluctuations on revenues earned in U.S. dollars. Where appropriate, these exposures are managed through interest rate swaps and currency contracts. The Company currently has no significant outstanding commitments relating to foreign currency hedges or interest rate swaps.

Supplier risk: The Company's ability to obtain meat, and particularly pork, for processing purposes is critical to its operations. In April 2001 the Company entered into a seven year pork supply agreement with a major producer. In the event that the Company is unable to renew this agreement on substantially the same terms, the Company's operating results could be significantly affected as a result of increased costs of obtaining pork.

The Company is also subject to supply risks associated with the health status of livestock to the extent that livestock health issues could adversely affect the production and availability of raw materials needed by the Company.

Credit risk: In common with most businesses, the Company also faces a certain degree of credit risk arising from sales of products on credit terms to customers. To manage credit risk, credit limits and terms of sale are established and monitored by the Company.

CHANGE IN ACCOUNTING POLICIES

Stock-based compensation: The Company elected to adopt the fair value method of accounting for stock option awards prospectively for its 2004 fiscal year starting December 28, 2003. Under the new policy, the fair value of stock options issued is amortized to income over the vesting period of the related options.

Hedging transactions: New accounting rules for hedging relationships became effective on December 28, 2003 for the Company. These guidelines established new criteria for determining which transactions qualify as hedging relationships. To qualify for hedge accounting, the hedging relationship must be appropriately documented at inception and there must be reasonable assurance, both at inception and throughout the term of the hedge, that the hedging relationship will be effective.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make certain estimates and assumptions, which are based on the Company's experience and management's understanding of current facts and circumstances. These estimates affect the reported amounts of assets, liabilities, contingencies, revenues and expenses included in the Company's consolidated financial statements and may differ from actual results. Significant areas requiring the use of management estimates include:

Goodwill: Goodwill is tested for impairment annually and as part of this test the Company assesses the value of goodwill in each of its reporting entities based on their respective fair values. Any impairment in goodwill would be expensed in the period of impairment. The Company's goodwill was evaluated at the end of its 2003 fiscal year and no impairment in the value had occurred.

Capital assets: Capital assets in use have been recorded at cost which is then amortized over the estimated useful life of the asset. Redundant assets are recorded at the lesser of cost less accumulated depreciation and estimated fair market value. A significant amount of judgment is required in estimating the useful life of an asset as well as the fair

market value of a redundant asset. Changes in the life of an asset would be reflected prospectively through changes in future amortization rates, while decreases in the fair market value of redundant assets would be expensed when the decline in value occurred.

Investments in associated companies: Investments in associated companies are assessed individually for whether there has been any impairment in value that is other than temporary in nature. Although it was determined that there has been a decline in the value of the Company's investment in CPV due to difficult commodity conditions, namely low hog prices, the decline was determined to be temporary based on there being no change in the long term fundamentals for both CPV and the industry in which it competes. In the event that a decline in value is determined to be other than temporary, the write down of the Company's investment in the applicable associated company would be expensed immediately.

QUARTERLY FINANCIAL INFORMATION

(in millions of dollars except per share amounts)

2003	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Sales	61.9	68.6	70.0	70.0	270.5
EBITDA(1)	3.6	5.6	4.2	3.7	17.1
Net earnings (loss)	(0.7)	0.6	—	(0.8)	(0.9)
Net earnings (loss) per share	(0.07)	0.06	—	(0.08)	(0.09)
Cash dividends	—	—	—	—	—
Total assets	224.1	215.8	212.0	204.8	204.8
Long term financial liabilities (2)	48.6	48.2	47.6	40.7	40.7

2002	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Sales	60.1	67.0	71.7	74.4	273.2
EBITDA(1)	4.5	5.2	5.6	4.9	20.2
Net earnings (loss)	0.7	1.2	(0.3)	(7.2)	(5.6)
Net earnings (loss) per share	0.07	0.12	(0.03)	(0.70)	(0.54)
Cash dividends	—	—	—	—	—
Total assets	235.0	236.2	234.9	227.5	227.5
Long term financial liabilities (2)	45.7	46.3	58.8	50.1	50.1

2001	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Sales	58.2	62.2	86.5	66.8	273.7
EBITDA (1)	(3.0)	4.0	5.2	(2.8)	3.4
Net earnings (loss) before discontinued operations	(3.2)	0.9	0.7	5.7	(7.3)
Net earnings (loss)	(3.0)	24.4	0.7	(6.7)	15.4
Net earnings (loss) per share before discontinued operations	(0.39)	0.11	0.08	(0.61)	(0.84)
Net earnings (loss) per share	(0.36)	2.96	0.08	(0.73)	1.78
Cash dividends	0.0	0.0	0.0	0.0	0.0
Total assets	273.3	215.7	244.9	238.3	238.3
Long term financial liabilities (2)	93.0	46.4	64.4	46.4	46.4

(1) EBITDA is defined as earnings before interest, income taxes, depreciation, amortization, equity in earnings of associated companies, non-controlling interest and transactional items. EBITDA is not a measure of performance under generally accepted accounting principles; however, management uses this performance measure to help assess the cash generating ability of the Company.

(2) Excludes current portion of long term debt.

The Company's quarterly results are subject to seasonal fluctuations. In terms of MPM, this Division's results are generally weakest in the first quarter of the year due to a general decline in consumer spending following the December holidays, then gain strength throughout the year with the fourth quarter being its strongest due to the various festive holidays. In terms of SF, this Division's results are generally weakest in the first quarter, peak in the summer months due to higher consumer demand then fall off in the fourth quarter.

Statements made by the Company in the MD&A and elsewhere that look forward in time or include anything other than historical information, involve risks and uncertainties that may affect the Company's actual results of operations. For additional details on these risks and uncertainties please refer to the Company's most recent Annual Information Form filed with appropriate securities regulatory bodies. The Company's Annual Information Form, as well as additional information on the Company, can be found at www.sedar.com.

April 29, 2004

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Premium Brands Inc. as at December 27, 2003 and December 28, 2002 and the consolidated statements of operations and deficit and cash flows for the fiscal periods ended December 27, 2003 and December 28, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 27, 2003 and December 28, 2002 and the results of its operations and its cash flows for the fiscal periods ended December 27, 2003 and December 28, 2002 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

New Westminster, Canada

March 11, 2004 except as to note 16, which is as of March 18, 2004

Consolidated Balance Sheets

(In thousands of Canadian dollars)	December 27, 2003	December 28, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 187	$ 3,855
Accounts receivable	25,771	26,760
Inventories	17,915	18,567
Prepaid expenses	1,541	1,859
Future income taxes (note 13)	3,936	3,950
	49,350	54,991
Notes receivable	2,263	9,767
Future income taxes (note 13)	11,401	11,798
Investments in associated companies (note 2)	18,244	15,157
Capital assets (note 3)	72,523	81,357
Goodwill	40,559	41,817
Other	10,419	12,649
	$ 204,759	$ 227,536
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	$ 17,583	$ 15,594
Accounts payable and accrued liabilities	21,267	26,754
Current portion of long-term debt	8,168	7,529
	47,018	49,877
Long-term debt (note 5)	40,674	50,087
Deferred revenue and other	555	1,206
	88,247	101,170
Non-controlling interest	642	809
Shareholders' equity:		
Share capital (note 6)	121,731	128,200
Deficit	(4,159)	(3,239)
Cumulative translation adjustment	(1,702)	596
Total shareholders' equity	115,870	125,557
	$ 204,759	$ 227,536

Commitments and contingent liabilities (note 10)

Subsequent event (note 16)

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(In thousands of Canadian dollars except per share amounts)	52 week period ended December 27, 2003	52 week period ended December 28, 2002
Sales	$ 270,521	$ 273,237
Earnings before undernoted items	17,078	20,166
Depreciation	8,258	8,578
	8,820	11,588
Amortization of intangible assets	2,236	2,121
Interest	6,074	5,952
Non-controlling interest	315	379
Equity in earnings of associated companies and other	250	340
Transactional losses (note 7)	–	6,996
Loss before income taxes	(55)	(4,200)
Income tax expense (note 13):		
Current	595	298
Future	299	1,072
	894	1,370
Net loss	(949)	(5,570)
Retained earnings (deficit), beginning of period	(3,239)	2,375
Discount (premium) on common shares purchased and cancelled	29	(44)
Deficit, end of period	$ (4,159)	$ (3,239)
Loss per share (note 9):		
Basic and diluted	$ (0.09)	$ (0.54)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)	52 week period ended December 27, 2003	52 week period ended December 28, 2002
Cash provided by (used for) operations:		
Net loss	$ (949)	$ (5,570)
Items not involving cash:		
Depreciation	8,258	8,578
Amortization of intangible assets	2,236	2,121
Non-controlling interest	315	379
Equity in loss (earnings) of associated companies	250	(410)
Loss (gain) on sale of assets (note 7)	(71)	3,199
Write down of deferred financing fees	–	1,173
Write down of redundant assets	–	586
Gain on sale of subsidiary	(788)	–
Future income taxes	299	1,072
	9,550	11,128
Changes in operating assets and liabilities	(7,364)	(8,739)
	2,186	2,389
Cash provided by (used for) financing:		
Repayment of long-term debt	(9,265)	(53,909)
Proceeds from long-term debt	2,525	56,200
Share price adjustment (note 6(e))	(2,065)	–
Bank indebtedness	2,309	(5,107)
Notes and mortgage receivable	3,332	371
Other	(808)	(2,327)
	(3,972)	(4,772)
Cash provided by (used for) investments:		
Proceeds from sale of assets (notes 7 and 8)	5,888	13,829
Capital assets additions	(6,929)	(6,824)
Other	(841)	(1,105)
	(1,882)	5,900
Increase (decrease) in cash and cash equivalents	(3,668)	3,517
Cash and cash equivalents, beginning of period	3,855	338
Cash and cash equivalents, end of period	$ 187	$ 3,855

Non-cash financing and investing activities (note 15).

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of Canadian dollars except per share amounts)
52 week periods ended December 27, 2003 and December 28, 2002

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and take into account the following significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of Premium Brands Inc. (the "Company") and all of its majority-owned subsidiaries after elimination of all significant intercompany transactions and balances.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

(c) Inventories:

Inventories, which include raw materials, work-in-progress and finished goods, are valued at the lower of cost (first-in, first-out method) and net realizable value. Cost includes raw materials, manufacturing labour and overhead.

(d) Capital assets:

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided on a declining-balance or straight-line basis over the period in use at the following annual rates, which are based on the expected useful life of the asset: buildings – 2.5% to 5%, machinery and equipment – 10% to 20%, and automotive equipment – 10% to 30%.

(e) Goodwill:

Goodwill and other intangible assets with indefinite lives are not amortized, but are tested for impairment at least annually. Under the requirements of the impairment test, the carrying value of the Company's reporting units is compared with the fair value of the reporting units. Where the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is carried out, whereby the implied fair value of that reporting unit's goodwill is compared to its carrying value to determine the amount of impairment loss. In addition, the carrying values of the identifiable intangible assets are also compared to their fair value. Management has determined that there is no impairment in goodwill or intangible assets as at December 27, 2003.

(f) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount are used to calculate future income tax assets or liabilities, and are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled.

(g) Foreign currency translation:

The Company's foreign operations have been translated to Canadian dollars using the current exchange rate for the balance sheet and the average exchange rate for the period for the income statement. Material gains or losses resulting from translation adjustments are deferred and recorded as a separate component of shareholders' equity until there is a realized reduction in the net investment in the foreign corporation.

Foreign currency accounts of Canadian operations have been translated to Canadian dollars using the exchange rate at the end of the year for monetary assets and liabilities and the prevailing exchange rate at the time of transaction for income and expenses. Gains and losses resulting from this translation are included in the consolidated statements of operations.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of

management estimates relate to the valuation of goodwill, inventory and capital assets and the useful lives of assets for amortization and depreciation. Actual results could differ from these estimates.

(i) Revenue recognition:

Revenue is recognized from products sold to customers, including retailers, foodservice operators, distributors and franchisees, via third party carriers at the time the goods leave the Company's possession. Revenue is recognized from products sold through the Company's direct-to-store distribution network when the product is delivered to the customer.

(j) Stock-based compensation plan:

The Company has one stock-based compensation plan, which is described in note 6(a).

The Company has elected to use the intrinsic value method of accounting for stock-based compensation. Under this method, stock options granted to non-employees are recorded using the fair value based method of accounting. The effect of all stock-based compensation awards on reported net earnings is disclosed on a pro forma basis in note 6 to the financial statements as if the Company had accounted for the stock compensation award under the fair value method.

(k) Employee future benefit plan:

The Company has a defined benefit pension plan covering certain employees. Benefits under this plan are based on years of service and the employee's compensation level. The cost of the plan is funded on a current basis. The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected rate of return on plan assets, the fair value method is used. The excess of any net actuarial gain (loss), which is 10% of the greater of the benefit obligation and the fair value of plan assets, is amortized over the average remaining service period of active employees.

(l) Earnings per share:

The Company uses the treasury stock method to calculate diluted earnings per share.

(m) Deferred financing costs:

Deferred financing costs are amortized on a straight-line basis over the term of the related debt.

2. Investments in associated companies:

The Company has a 30.5% (2002 – 30.5%) interest in hog producer Community Pork Ventures Inc. ("CPVI") (note 6(e)) and a 20% interest in label printer Tapp Technologies Inc. which was acquired in May 2003 (note 8). Both investments are recorded using the cost method.

During 2003 the Company came to an agreement with CPVI that it would reduce the number of directors it was entitled to appoint to CPVI's Board of Directors to one of nine directors from the previous level of three of nine directors. As a result of this change, the Company has determined that it no longer has significant influence over the operations of CPVI and now accounts for its investment in CPVI using the cost method. Prior to this change, the Company's investment in CPVI was recorded using the equity method.

During 2002 the Company sold its 26.3% interest in Piller Sausages & Delicatessens Limited ("Pillers") and its 40% interest in Peace Pork Inc. (note 8).

3. Capital assets:

	2003	2002
Land	$ 6,200	$ 6,571
Buildings	34,920	34,149
Machinery and equipment	81,342	86,122
Automotive equipment	10,102	14,837
	132,564	141,679
Less accumulated depreciation	60,041	60,322
	$ 72,523	$ 81,357

Capital lease assets of $1.9 million (2002 – $2.7 million) and nil (2002 – $0.8 million) are included with machinery and equipment and automotive equipment, respectively. Accumulated depreciation on these assets is $1.2 million (2002 – $1.1 million) and nil (2002 – $0.7 million), respectively.

Capital assets not subject to depreciation of $4.7 million (2002 – $5.5 million) are included with machinery and equipment and automotive equipment in the consolidated balance sheets.

4. BANK INDEBTEDNESS:

Bank indebtedness consists of borrowings on various bank lines of credit and cheques issued in excess of funds on deposit. The Company has bank lines of credit totalling $22.2 million (2002 – $23.3 million). These lines of credit are due on demand, bear interest at bank prime to prime plus 1.25%, depending on the Company's senior debt to cash flow ratio, and are secured by an assignment of inventories, accounts receivable, insurance policies and a general lien on all other assets of the Company. As at December 27, 2003, actual amounts drawn on bank lines of credit are $16.1 million (2002 – $13.9 million). Interest on bank indebtedness in 2003 was $1.0 million (2002 – $1.2 million).

5. LONG-TERM DEBT:

	2003	2002
Secured term loans, bearing interest at prime to prime plus 1.5%, depending on the Company's senior debt to cash flow ratio, balance due in 2005	$ 26,511	$ 28,450
Secured term loans bearing interest at a five year weighted average fixed rate of 8.4% to 9.2%, depending on the Company's senior debt to cash flow ratio, balance due in 2007 to 2014. In addition, an escalating fee of between $0.8 million in 2004 to $1.7 million in 2007 is payable by the Company at the time of repayment of certain amounts	15,095	18,750
A secured Economic Development Revenue bond, bearing interest at the weekly variable rate for such bonds, which in 2003 was 2.6% (2002 – 3.0%), balance due in 2024	5,151	6,321
Unsecured notes payable, bearing interest at a weighted average rate of 9.0% (2002 – 8.0%) and due in 2004	1,500	2,375
Capital lease obligations	585	1,697
Other	–	23
	48,842	57,616
Current portion	8,168	7,529
	$ 40,674	$ 50,087

The Company's various debt agreements contain financial covenants that require the maintenance of certain ratios regarding working capital, fixed charge coverage and cash flow to debt. Subsequent to year end, certain of the covenants in these agreements were retroactively amended to reflect changes in the current business environment; as a result, the Company was in compliance with all debt covenants at December 27, 2003.

Principal due on long-term debt within each of the next five years as at December 27, 2003 is approximately as follows:

	Long-term debt	Capital lease obligations	Total
2004	$ 7,920	$ 248	$ 8,168
2005	22,354	177	22,531
2006	1,157	140	1,297
2007	5,502	20	5,522
2008	1,164	–	1,164
Thereafter	10,160	–	10,160
	$ 48,257	$ 585	$ 48,842

6. SHARE CAPITAL:

(a) Authorized and issued share capital:

The authorized share capital of the Company consists of an unlimited number of common shares. Common share transactions were as follows:

	2003		2002	
	Shares	Amounts	Shares	Amounts
Balance, beginning of year	10,311	$ 128,200	10,340	$ 128,612
Purchase of common shares (note 6(d))	(8)	(105)	(29)	(352)
Exercise of share options	2	17	–	–
Share price adjustment (note 6(e))	125	(6,281)	–	–
Other	–	(100)	–	(60)
Balance, end of year	10,430	$ 121,731	10,311	$ 128,200

(b) Share options:

The Company has a share option plan (the "Plan") for employees and non-employee directors. Under the terms of the Plan, options issued must be approved by the Board of Directors, have an exercise price equal to the market price of the common shares on the date of grant, vest over one to four years from the date of grant and have terms of five to ten years.

A summary of share option transactions and the status of the Plan are as follows:

	2003		2002	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	610	$ 17.38	502	$ 18.27
Granted	63	7.47	115	13.25
Exercised	(2)	7.80	–	–
Cancelled	(148)	15.70	(7)	19.35
Balance, end of year	523	$ 16.71	610	$ 17.38
Options exercisable at year end	378	$ 18.68	433	$ 18.42

Exercise price range	Number of options	Weighted average price	Weighted average remaining contractual life	Exercisable options	Weighted average price of exercisable options
$ 7.20 - $13.80	193	$ 11.35	6 years	72	$ 12.64
$14.38 - $16.50	152	$ 15.50	4 years	128	$ 15.32
$20.00 - $26.10	178	$ 23.56	4 years	178	$ 23.56

The estimated fair value of the options granted during the year is $0.2 million (2002 – $0.5 million) based on using the Black-Scholes option pricing model and the following assumptions: a weighted average expected term of 5.0 years (2002 – 5.5 years), a volatility factor of 27.5% (2002 – 27.0%), an expected dividend yield of 0% and a risk-free interest rate of 4% (2002 – 5%).

If the Company accounted for stock based compensation using the fair value method, its net loss for the year would have been $0.7 million or $0.07 per share (2002 – $5.8 million or $0.56 per share) based on the estimated fair values of options granted and a 2.7 year (2002 – 2.5 year) amortization period, which reflects the average vesting period of the options.

(c) Stock purchase plan:

The Company has an Employee Stock Purchase Plan (the "ESPP") where employees may subscribe, through payroll withholdings, to purchase the Company's common shares at a discount. The discount is equal to 10% of the market value of the common shares purchased to a maximum discount of $100 per employee per year. All shares purchased under the ESPP are purchased in the open market.

(d) Stock repurchases:

During 2003, the Company repurchased for cancellation 8,400 common shares at a total cost of $0.1 million. In 2002, the Company repurchased for cancellation 28,310 common shares at a total cost of $0.4 million as part of the sale of its investment in Peace Pork (note 8).

(e) Contingent consideration:

In November 2000, the Company issued 455,400 common shares at $30 per share for total consideration of $13.7 million to Community Pork Ventures Inc. ("CPVI") in exchange for an interest in CPVI (note 2). As part of this exchange, the Company agreed that if the weighted average trading value of the Company's common shares on The Toronto Stock Exchange for the twenty days prior to November 24, 2003 was less than $30, the Company would pay additional consideration to CPVI equal to the portion of the original 455,400 shares issued to CPVI and still held on November 24, 2003 multiplied by the difference between $30 and the weighted average trading value of the Company's common shares on The Toronto Stock Exchange for the twenty days prior to November 24, 2003.

In May 2003 the Company reached an agreement with CPVI that eliminated the contingent consideration in exchange for 125,000 of the Company's common shares, a cash payment of $2.0 million and a $4.7 million note payable bearing interest at 4.5% and payable in September 2005. In December 2003 the Company further agreed to offset its $4.7 million note to CPVI with receivables from CPVI resulting in a cash payment of $0.2 million to CPVI.

7. Transactional losses:

Transactional losses incurred in fiscal 2002 include a loss of $1.1 million for the buy-out of a consulting agreement with the Saskatchewan Wheat Pool; $4.1 million in losses relating to the sale of redundant assets and non-core businesses; and $1.8 million for the write down of certain intangible and redundant assets.

8. Acquisitions and divestitures:

(a) 2003 transactions:

In May 2003 the Company sold its label printing businesses, Adam's Label & Tag Ltd. and Apex Label & Systems Inc. to Tapp Technologies Inc. for $3.0 million in cash and a 20% interest in Tapp resulting in a gain of $0.8 million. As part of the sale, the Company received the right, exercisable at any time after April 2006, to require Tapp to repurchase the Company's 20% interest in Tapp for the greater of $3.0 million and fair market value.

(b) 2002 transactions:

In February 2002 the Company sold its 40% investment in hog producer Peace Pork Inc. for total proceeds of $3.4 million, consisting of $1.3 million in cash, $1.7 million in notes receivable and $0.4 million in common shares that were subsequently cancelled (note 6(d)).

In December 2002 the Company sold its 26.3% interest in Pillers as part of a series of transactions that resulted in total proceeds of $19.6 million. $17.2 million of the proceeds, which consisted of $8.9 million in cash, $6.0 million in notes receivable and $2.3 million in non-monetary benefits resulting from a five year non-compete agreement, were allocated to the sale of Piller's. The balance of the proceeds was allocated to future supply agreements and the resolution of issues outstanding between the two companies.

9. Loss per share:

Basic earnings (loss) per share amounts have been calculated using the weighted average number of shares outstanding during the period: 10,380,629 in 2003 and 10,315,560 in 2002.

Diluted earnings (loss) per share, which generally reflects the potential dilutive effect of the conversion of the Company's stock options, equals basic earnings per share in 2003 and 2002 due to the Company incurring a net loss in both years.

10. Commitments and contingent liabilities:

(a) The Company leases land, warehouses, offices and equipment under several operating leases which expire from 2004 to 2009. The aggregate future minimum annual rental payments under these leases are as follows:

2004	$	2,549
2005		1,031
2006		453
2007		173
2008 and thereafter		97

(b) The Company has made commitments that it and/or its affiliate will incur $15.0 million in total qualified expenditures in the Province of Saskatchewan by December 2004. Qualified expenditures include capital and certain operating expenditures and to date total approximately $9.4 million. In addition, the Company is negotiating the inclusion of a further $6.7 million in expenditures relating to its incremental investment in CPVI (see note 6(e)). In the event that the qualified expenditures are less than $15 million, the Company would incur a penalty of 27% of the difference between the $15 million commitment and the actual amount of qualified expenditures, payable in cash and/or shares.

(c) The Company has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

11. Employee future benefits:

The Company maintains a defined benefit pension plan which covers some salaried staff (the "Plan"). Benefits under the Plan are based on years of credited service and average compensation.

Information about the Company's defined benefit pension plan is as follows:

		2003		2002
Accrued benefit obligation:				
Balance, beginning of period	$	4,018	$	3,380
Current service costs		194		150
Employee contributions		49		48
Interest cost		272		237
Benefits paid		(201)		(185)
Loss on accrued benefit obligation		343		388
Balance, end of period	$	4,675	$	4,018
Plan assets:				
Fair value, beginning of period	$	3,540	$	2,918
Annual return on plan assets		519		362
Employer contributions		242		397
Employee contributions		49		48
Benefits paid		(201)		(185)
Fair value, end of period	$	4,149	$	3,540
Funded status – deficit	$	(526)	$	(478)
Unamortized net actuarial loss		322		211
Unamortized transitional obligation		181		197
Accrued benefit liability	$	(23)	$	(70)

12. Segmented information:

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2003	2002
Discount rate	6.75%	7.00%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	3.50%	4.00%

12. Segmented information:

The Company's operations have been classified into the following two primary operating segments, which have been used for the operating segment disclosures for all years presented:

(a) Mainstream Processed Meats – These operations produce primarily mainstream processed meat products such as bacon, ham and sausage and sell mainly through the retail and foodservice distribution channels.

(b) Specialty Foods – These operations produce and/or distribute high quality differentiated food products such as European style deli meats, delicatessen items, snack foods, premium ice cream products, and frozen meal solutions, and sell mainly through the direct-to-store delivery and direct-to-home delivery distribution channels.

	Mainstream Processed Meats	Specialty Foods	Corporate	2003 Total
Sales	$ 166,395	$ 112,732	$ –	$ 279,127
Elimination of inter-segment sales	(6,930)	(1,676)	–	(8,606)
Total sales to external parties	$ 159,465	$ 111,056	$ –	$ 270,521
EBITDA	$ 9,389	$ 8,335	$ (646)	$ 17,078
Depreciation	2,821	3,520	1,917	8,258
	$ 6,568	$ 4,815	$ (2,563)	$ 8,820
Goodwill	$ 2,620	$ 37,939	$ –	$ 40,559
Other allocated assets	59,589	43,596	21,105	124,290
Investment in associated companies				18,244
Future income taxes				15,337
Notes receivable (current portion included in accounts receivable)				6,329
Total assets				$ 204,759

	Mainstream Processed Meats	Specialty Foods	Corporate	2002 Total
Sales	$ 162,967	$ 122,130	$ –	$ 285,097
Elimination of inter-segment sales	(6,945)	(4,915)	–	(11,860)
Total sales to external parties	$ 156,022	$ 117,215	$ –	$ 273,237
EBITDA	$ 10,023	$ 12,090	$ (1,947)	$ 20,166
Depreciation	2,909	3,647	2,022	8,578
	$ 7,114	$ 8,443	$ (3,969)	$ 11,588
Goodwill	$ 2,702	$ 39,115	$ –	$ 41,817
Other allocated assets	61,920	53,260	25,677	140,857
Investment in associated companies				15,157
Future income taxes				15,748
Notes receivable (current portion included in accounts receivable)				13,957
Total assets				$ 227,536

EBITDA is defined as earnings before interest, income taxes, depreciation, amortization, equity in earnings of associated companies, non-controlling interest and transactional losses.

All inter-company transactions have been eliminated from the above amounts.

Revenue, segment earnings, and capital assets and goodwill for the periods presented are geographically segmented as follows:

	Revenue	Segment earnings	Capital assets and goodwill
Canada	$ 190,023	$ 7,400	$ 101,596
United States	80,498	1,420	11,486
December 27, 2003	$ 270,521	$ 8,820	$ 113,082
Canada	$ 186,752	$ 8,932	$ 109,288
United States	86,485	2,656	13,886
December 28, 2002	$ 273,237	$ 11,588	$ 123,174

Segment earnings are defined as earnings before interest, income taxes, amortization, equity in earnings of associated companies and transactional losses.

The Company has one customer who contributes 10% or more to its consolidated revenue. Sales to this customer in 2003 were $37.6 million (2002 – $41.0 million).

13. INCOME TAXES:

The provision for income taxes varies from the basic combined Federal, Provincial, and State income taxes as a result of differing treatment of deductibility of certain amounts for accounting and taxation purposes. The variations are explained as follows:

	2003	2002
Loss before income taxes	$ (55)	$ (4,200)
	37.60%	39.60%
Statutory	(21)	(1,663)
Manufacturing and processing profits deductions and foreign tax rate differences	17	86
Capital taxes	595	298
Equity income not subject to income taxes	94	691
Changes in enacted rates and timing estimates	321	1,687
Permanent differences	(73)	90
Other	(39)	181
Provision for income taxes	$ 894	$ 1,370

The future income tax assets and liabilities as at December 27, 2003 and December 28, 2002 are comprised of the following temporary differences:

	2003	2002
Future income tax assets (current):		
Tax loss carryforwards	$ 3,936	$ 3,950
Future income tax assets and liabilities (non-current):		
Tax loss carryforwards	11,485	8,545
Capital assets	(230)	2,479
Share issuance costs	513	777
Reserves, provisions and other	21	479
Equity investments	(388)	(482)
	11,401	11,798
Future income tax assets, net	$ 15,337	$ 15,748

14. Financial instruments and risk management:

(a) Fair value of financial instruments:

The carrying values of accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair values because of their short-term maturities.

The carrying values of obligations under capital leases, other long-term debt and notes receivable approximate their fair values, either because they bear interest at floating rates or their effective interest rates approximate current market rates for similar debt instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(b) Foreign currency risk:

In the normal course of business, the Company enters into foreign currency transactions which are substantially denominated in US dollars (see note 12). The Company manages its foreign currency exposure through a combination of natural hedges, resulting from US dollar denominated input costs, and forward currency contracts. There were no significant foreign currency contracts outstanding at December 27, 2003 or December 28, 2002.

(c) Interest rate risk:

All of the Company's bank indebtedness and approximately 65% of its long-term debt bear interest at fluctuating rates. The Company manages its interest rate exposure by fixing the rate of interest on certain debt instruments and, where applicable, entering into interest swap contracts. There were no interest swap contracts outstanding at December 27, 2003 or December 28, 2002.

15. Non-cash financing and investing activities:

The following items are not considered to be cash items and do not appear under cash used for financing and cash used for investments in the statements of cash flows:

	December 27, 2003	December 28, 2002
Note receivables received from the sale of assets	$ 33	$ 8,619
Other non-cash proceeds received from the sale of assets	3,337	2,746

The Company paid interest of $5.4 million (2002 – $6.1 million) and income taxes of $0.6 million (2002 – $0.2 million), respectively.

16. Subsequent event:

On March 18, 2004, the Company sold its Vancouver plant as part of a sale and leaseback transaction for net proceeds of $8.5 million. As part of the transaction, the Company entered into a ten year lease at $810,000 per year. Proceeds from the transaction, combined with $3.5 million collected on outstanding notes receivable will be used to pay down both the Company's term and operating debt.

Investor

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George Paleologou, C.A.
President

William D. Kalutycz, C.A.
Chief Financial Officer

Wes Bews, C.A.
Corporate Controller

Douglas Goss, Q.C.
General Counsel and Corporate Secretary

Stephen Bates
General Manager
Fletcher's

Heinz Grimm
Vice President
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Ronald E. Kleijn
Vice President and General Manager
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Kenneth G. Propp
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Harvest Meats

Kevin Kelly
Chief Operating Officer
Quality Fast Foods

Steven McWhirter
Vice President and General Manager
Goodlife Foods

Rick Grimm
Vice President
Grimm's Fine Foods

Board of Directors

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Chairman of the Board

Garnet Berg (2)
Director

George Paleologou (3)
President

Richard Wright (1)
Director

Rusty Goepel (3)
Director

Dave Stitt (2)
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Frank L. Stack (1) (3)
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John Hicke (1)
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(2) Human Resources & Compensation Committee
(3) Corporate Governance & Nominating Committee

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